



GLOBAL CLIMATE CHANGE

MAY 2006



USAID's activities in Georgia have addressed the country's challenges in the energy sector primarily through reform, renewable energy, and alternative sources of energy. Increasing energy efficiency is a prerequisite for reducing emissions in Georgia, and USAID plans to continue its support with these initiatives.

Background. Located between and partly incorporating the Northern and Southern Caucasus mountain ranges, Georgia is home to an estimated 5.4 million persons. Despite a period of limited development progress following the political and social turbulence of the 1990s, Georgia continues to be plagued by a centralized, executive-dominated authority; corruption; and unresolved territorial conflicts that obstruct attempts to improve the country's overall development. The energy sector has been paralyzed by improper diversions of cash and electricity, inefficiency, and nonpayment for 80% of the energy consumed. However, recent management improvements in the largest electricity distribution company, the United Energy Distribution Company (UEDC) reduced corruption and theft, thereby reducing cash and electricity diversions and increasing consumer collections from approximately 20% in 2004 to 80% prior to tariff increases in mid-2006. Overall in Georgia, uncollected amounts from consumers have been reduced to 18%, though payments to wholesale producers still remain low. These will increase over time as the increased tariffs result in greater overall value of collections.

Sector-Specific Climate Change Activities. USAID has been instrumental in addressing energy issues in Georgia through numerous initiatives. In the energy sector, USAID efforts focus on the legal and policy reforms necessary to attract private investments. Working with Georgia's Ministry of Energy (MOE), USAID helped the government to strategize how to become more energy self-sufficient, compensate for power system deficiencies through rehabilitation and, for the first time, develop a medium-term plan for sector rehabilitation and commercialization. USAID's Advisory Services project worked closely with the MOE to help develop policies that will commercialize the sector, encouraging efficiency with the use of renewable energy and reducing losses. In particular, USAID assisted Georgia in revising its energy policy and draft amendments to the electricity and gas law, passed in 2005, which will positively impact commercialization and promote competition.

Additional successes include:

- The MOE energy policy and draft amendments to the electricity and gas law are revised, resulting in the passage of an amended law to With USAID assistance, the MOE justified and defended an extraordinarily high level of public energy expenditures in its new Strategic Action Plan, with over US \$600 million planned through 2008.
- For 2005, resources exceeded US \$100 million, a 35% increase over 2004.
- In 2006, 53% of these resources are slated for infrastructure, a remarkable achievement considering the number of demands on the budget. USAID assisted MOE to develop pre-feasibility studies to help the Government of Georgia attract international financial institutions and private investors.

USAID's partners in climate change activities in Georgia include*:

- PA Government Services Inc.
- Winrock International
- Horizonti Foundation
- CORE International Inc.
- World Learning
- Georgia Ministry of Energy (MOE)

* Because partners change as new activities arise, this list of partners is not comprehensive.

In 2006, USAID is providing assistance to the MOE and Georgia's Ministry of Economic Development to analyze progress in commercial operation of the sector and advise on actions to help ensure successful privatization of state assets.

USAID/Georgia is also funding a four-year Georgia Energy Security Initiative (GESI) program designed to improve the supply of affordable energy available domestically, both "on the grid" and at the community level, increase the financial performance of the energy distribution sector, enhance private sector participation and revamp the system of social protection. During 2005, improved efficiency, as measured in numbers of meters installed, resulted in the installation of 15,274 individual and 9,100 communal meters (representing 561,274 customers). Installation of meters resulted in a large reduction in wasted energy, resulting in the same amount of power to date in 2006, supplying 24 hour power which supplied only 6 hours of power per day on average in 2004. In May, 2006, USAID and its contractor, together with the Government of Georgia, were awarded the Platinum and international awards by the Management Consultants' Association of the UK for the "best turnaround of a company through management reforms."

At the community level, a 2-year, US \$465,000 Community Development and Energy Program was implemented by Horizonti Foundation, focusing on community mobilization activities that generate income, reduce deforestation and introduce renewable energy and energy efficiency technologies. Twenty Georgian communities were selected for this program. In 2005, GESI initiated three energy projects: two gasification projects and one hydroelectric station rehabilitation, completed in 2006. The projects were funded under GESI's credit facility component, resulting in loans worth US \$210,866.

Training is an important part of USAID's approach to creating awareness regarding energy issues. Twenty-six representatives of nongovernmental organizations (NGOs), community-based organizations and unions received information regarding renewable energy technologies and its importance in improving the quality of the environment, in the Participant Training Program implemented by World Learning.

In late 2005, a Rural Energy Program implemented by Winrock International, which builds on the lessons learned from the GESI community energy program, was launched. Activities include primarily the rehabilitation of existing rural energy facilities (i.e. small-scale hydropower plants and natural gas distribution systems), as well as establishment of other small scale renewable energy and/or energy efficiency projects and implementation of integrated resource management plans. In particular, the Rural Energy Program aims to: (a) increase supply of energy in rural areas (both grid

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<http://georgia.usaid.gov/>

connected and off-grid); (b) improve management of local energy production; (c) improve in-country capacity in rural energy and alternative energy applications; and (d) improve capacity to utilize and protect the local energy resource base. Leveraging of financing, provision of supplemental grants and technical assistance will result in refurbishment of eight (8) hydro plants, establishment of management teams prepared to operate and maintain them sustainably, and promotion of efficient energy use in community buildings. Additional hydro in Georgia supplants gas-fired thermal power and extension of access to natural gas reduces pressure on forests. In addition, plans to protect watersheds around the hydro will ensure that the hydro resource remains and forests are preserved. Increasing hydro capacity, substitution of efficient natural gas for inefficient wood, increased efficiency in local buildings and preservation of forests all reduce carbon emissions.